

**REPORT OF THE AUDIT OF THE  
TAYLOR COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2006**



**CRIT LUALLEN  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE TAYLOR COUNTY SHERIFF**

**For The Year Ended  
December 31, 2006**

The Auditor of Public Accounts has completed the Taylor County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees increased by \$1,979 from the prior year, resulting in excess fees of \$8,140 as of December 31, 2006. Revenues increased by \$168,713 from the prior year and expenditures increased by \$166,734.

#### **Report Comments:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Withhold Retirement From All Employees Who Work An Average Of One Hundred Hours Or More A Month

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Eddie Rogers, Taylor County Judge/Executive  
The Honorable John Shipp, Taylor County Sheriff  
Members of the Taylor County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Taylor County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 27, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Eddie Rogers, Taylor County Judge/Executive  
The Honorable John Shipp, Taylor County Sheriff  
Members of the Taylor County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Withhold Retirement From All Employees Who Work An Average Of One Hundred Hours Or More A Month

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Taylor County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

June 27, 2007



TAYLOR COUNTY  
JOHN SHIPP, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

Federal Grants		\$	22,010
State Grants			4,182
State - Kentucky Law Enforcement Foundation Program Fund			36,373
State Fees For Services:			
Finance and Administration Cabinet	\$	26,415	
Cabinet for Health and Family Services		769	
Sheriff Security Service		31,710	
Marijuana Task Force		<u>2,340</u>	61,234
Circuit Court Clerk:			
Fines and Fees Collected		5,105	
Court Ordered Payments		<u>40</u>	5,145
Fiscal Court			237,312
County Clerk - Delinquent Taxes			549
Commission On Taxes Collected			259,596
Fees Collected For Services:			
Auto Inspections		11,225	
Accident and Police Reports		1,008	
Serving Papers		21,120	
Carrying Concealed Deadly Weapon Permits		5,895	
Lake Patrol		25,338	
Summons Fees		9,640	
Transporting Mental Patients		<u>24,473</u>	98,699
Other:			
School Resource Officers Refund		42,500	
Sheriff's Tax and Penalty Fees		31,675	
Sheriff Sale		58,540	
Miscellaneous		<u>1,441</u>	134,156
Interest Earned			13,105
Borrowed Money:			
State Advancement		140,000	
Bank Note		<u>55,000</u>	195,000
Total Revenues			<u>1,067,361</u>

The accompanying notes are an integral part of this financial statement.

TAYLOR COUNTY  
 JOHN SHIPP, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2006  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	423,593
Part-Time Salaries		63,797
Overtime		26,194

Employee Benefits-

Employer's Share Social Security		42,663
Employer's Share Retirement		7,700
Employer Paid Health Insurance		39,973

Contracted Services-

Advertising		1,283
Vehicle Maintenance and Repairs		12,003

Materials and Supplies-

Office Materials and Supplies		7,543
Uniforms		12,299

Auto Expense-

Gasoline		30,082
Mileage		120

Other Charges-

Bond		5,539
Carrying Concealed Deadly Weapon Permits		3,750
Cellular Phone		1,919
Drug Dog		2,841
Dues		568
Juror Meals		190
Law Enforcement		9,105
Miscellaneous		4,019
Postage		963
Sheriff Sale		55,868
School Resource Officers		22,010
Summons to County		9,630
Transporting Prisoners		1,068

Capital Outlay-

Office Equipment		1,843
Vehicle Equipment		35,892
		<hr/>
	\$	822,455

Debt Service:

State Advancement		140,000
Notes		16,500
Interest		2,670
		<hr/>
		159,170

Total Expenditures		<hr/>
		981,625

The accompanying notes are an integral part of this financial statement.

TAYLOR COUNTY  
JOHN SHIPP, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2006  
(Continued)

Net Revenues	\$ 85,736
Less: Statutory Maximum	<u>74,294</u>
Excess Fees	11,442
Less: Training Incentive Benefit	<u>3,302</u>
Excess Fees Due County for 2006	8,140
Credit Allowed By Fiscal Court (Note 6)	<u>8,140</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

TAYLOR COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

TAYLOR COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent for the first six months and 28.21 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

TAYLOR COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 4. Note Payable

On January 1, 2006, the Office of the Sheriff was liable for an unsecured note of \$25,000. Interest payments of \$2,670 were made during the year ended December 31, 2006. On March 31, 2006, the Office of the Sheriff took an additional unsecured note of \$30,000. The Sheriff made a payment of \$16,500 from the fee account. At year-end, he renewed and combined the balances of the two notes, leaving a balance of \$38,500 as of December 31, 2006. The note matures upon demand or as of December 31, 2007 and the interest rate is 6.25 percent.

Note 5. Drug Forfeiture Account

The Sheriff maintains a Drug Forfeiture Account. This account is funded by proceeds from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds are to be used for law enforcement activities. As of January 1, 2006, the Sheriff had a balance of \$4,394. During the year, receipts totaled \$661 and disbursements totaled \$1,536. The balance as of December 31, 2006 was \$3,519.

Note 6. Excess Fees

For the year ended December 31, 2006, excess fees of \$8,140 were earned by the Taylor County Sheriff's office but were not remitted as required by KRS 134.310(6). The Taylor County Fiscal Court subsequently allowed the Sheriff to retain these fees for 2007 expenses.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Eddie Rogers, Taylor County Judge/Executive  
The Honorable John Shipp, Taylor County Sheriff  
Members of the Taylor County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Taylor County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated June 27, 2007. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Taylor County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Taylor County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Taylor County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiencies described above are material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Taylor County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comment and recommendation.

- The Sheriff Should Withhold Retirement From All Employees Who Work An Average Of One Hundred Hours Or More A Month

The Sheriff's response to the findings identified in our audit is included in the accompanying comments and recommendations. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Taylor County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

June 27, 2007

## COMMENTS AND RECOMMENDATIONS



TAYLOR COUNTY  
JOHN SHIPP, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the Sheriff's office has a lack of adequate segregation of duties.

Cash receipts by mail are not received and logged by someone who is independent of handling and/or posting cash receipts to the ledger. At a minimum, only one person should be designated to receive and open mail. Also, the employee who records cash receipts also prepares the deposits and completes the bank reconciliations. Good internal controls dictate that same employee should not be handling, recording and reconciling cash receipts. Lastly, authorized check signers are not independent of check preparation, cash receiving, and purchasing.

If the Sheriff can not segregate these duties, compensating controls such as the Sheriff recounting the daily deposits, agreeing deposits to daily tax reports, and agreeing deposits to the receipts ledger should be implemented. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger. The Sheriff could also periodically compare the bank reconciliations to the balance in the checkbook and document this by initialing and dating the bank reconciliation and the balance in the checkbook. We recommend the Sheriff review office procedures to address this control deficiency.

*Sheriff's Response: No response.*

STATE LAWS AND REGULATIONS:

The Sheriff Should Withhold Retirement From All Employees Who Work An Average Of One Hundred Hours Or More A Month

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During the course of our audit, we noted the Sheriff did not withhold retirement from all salaries paid. The Sheriff did not withhold retirement from four employees whose work hours exceeded 100 hours average monthly. We recommend the Sheriff withhold retirement from all salaries subject to retirement. We also recommend the Sheriff contact the Kentucky Retirement System for further instructions concerning his 2006 payroll.

*Sheriff's Response: Will comply.*

